MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

21 OCTOBER 2019
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE** pages.

2. Answer **ALL** questions in **Section A** and **B**. The distribution of marks for each question is given.

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. Which is **NOT** one of the criteria necessary for a commodity to make a suitable medium of exchange?
   A. It should be durable.
   B. It should be portable.
   C. It should have intrinsic value.
   D. It should be of standardised quality.

2. The money supply has increased from RM1.2 trillion to RM1.4 trillion. Which of the following could have caused this increase?
   A. The central bank increased the discount rate.
   B. Commercial banks began to hold excess reserves.
   C. The central bank sold government securities to the public.
   D. Consumers who were holding money outside the banking system deposit this money.

3. An increase in the price level, ceteris paribus, would likely _____.
   A. increase both the equilibrium interest rate and equilibrium money holdings
   B. keep the equilibrium interest constant and increase equilibrium money holdings
   C. decrease the equilibrium interest rate without changing equilibrium money holdings
   D. increase the equilibrium interest rate without changing equilibrium money holdings

4. Which of the following transactions definitely decreases the liabilities of a bank?
   A. A bank sells new shares of bank stock.
   B. A bank purchases new computers with cash.
   C. A bank sells RM100,000 worth of government securities.
   D. A customer withdraws RM500 from her checking account.

5. When you keep money in the bank, which function of money are you using?
   A. Store of value
   B. Unit of account
   C. Medium of exchange
   D. All of the above

6. When the central bank conducts open market purchases, bank reserves _____.
   A. increase and banks can increase lending
   B. decrease and banks can increase lending
   C. increase and banks must decrease lending
   D. decrease and banks must decrease lending

Continued...

7. The base year is the year _____.
   A. in which prices are lowest
   B. in which prices are highest
   C. in which prices are unstable
   D. that serves as a reference point or benchmark

8. You lend RM10,000 to a friend for one year at a nominal interest rate of 10%. The CPI over that year rises from 115 to 120. What is the real rate of interest you will earn?
   A. 0%
   B. 4.5%
   C. 5.8%
   D. 5.65%

9. Inflation that is _____ than what is expected benefits _____ and hurts _____.
   A. less; lenders; borrowers
   B. less; borrowers; lenders
   C. greater; lenders; no one
   D. greater; lenders; borrowers

10. Suppose that the price index for this year is 120 and your salary is RM24,000. Suppose that in year 2022, the price index will be 300. What salary will you have to earn to maintain your real income?
    A. RM50,000
    B. RM60,000
    C. RM72,000
    D. None of the above

11. The number of people who are naturally unemployed is the summation of those who are _____.
    A. structurally unemployed and cyclical unemployed
    B. structurally unemployed and frictionally unemployed
    C. structurally unemployed, frictional unemployed and cyclically unemployed
    D. none of the above

12. Frictional unemployment increases when _____.
    A. discouraged workers drop out of the work force
    B. real GDP decreases and the unemployment rate rises
    C. the number of workers who quit one job to find another increases
    D. workers are replaced by machines and the unemployed workers do not have the skills to perform new jobs

Continued...

13. To move to a point on the Phillips curve where unemployment is lower, _____.
    A. inflation must fall
    B. the central bank could increase the money supply
    C. the central bank could decrease the money supply
    D. none of the above

14. Retired persons are officially classified as _____.
    A. employed
    B. unemployed
    C. self-employed
    D. not in the labour force

15. A country that can produce good X using fewer resources than another country _____.
    A. should specialise in the production of good X
    B. has an absolute advantage in the production of good X
    C. has a lower opportunity cost of producing good X than another country
    D. all of the above

16. When a country allows trade and becomes an importer of a good, _____.
    A. consumer surplus and producer surplus will increase
    B. consumer surplus and producer surplus will decrease
    C. consumer surplus will increase and producer surplus will decrease
    D. consumer surplus will decrease and producer surplus will increase

Question no. 17 is based on the following information:

> The before-trade domestic price of coconut in Indonesia is USD0.60 per kg. The world price of coconut is USD0.80 per kg. Indonesia is a price taker in the coconut market.

17. If trade in coconut is allowed, _____.
    A. the price of coconut in Indonesia will increase
    B. the price of coconut in Indonesia will decrease
    C. the price of coconut in Indonesia will be unaffected
    D. none of the above

18. Which of the following is **NOT** a benefit of trade?
    A. Increased competition
    B. An increased variety of goods
    C. Lower costs through economies of scale
    D. An ability to control domestic and world prices

19. A tariff is _____.
    A. a tax on luxuries
    B. a tax on imported goods
    C. a tax on exported goods
    D. a limit on imported goods

Continued...

20. The terms of trade refers to _____.
    A. documents that two countries sign in order to facilitate trade
    B. exchange rate determined by the exporting and importing countries
    C. ratio at which one country trades a domestic product for imported goods
    D. conditions imposed by the importing country regarding the quality of the imported goods

21. Which of the following is **NOT** included in the current account?
    A. exports of goods
    B. exports of services
    C. investment income
    D. statistical discrepancy

22. In the U.S. balance of payments, purchases of foreign assets by U.S. residents are tabulated as a(an) _____.
    A. capital inflow
    B. capital outflow
    C. unilateral transfer
    D. current account outflow

23. Which of the following transactions would be recorded as a credit in the U.S. current account?
    A. An American tourist's spending in Japan
    B. An American consumer's purchase of a Japanese car
    C. A Malaysian consumer's purchase of an Apple computer
    D. A Japanese businessman purchase of General Motors' stock

24. Spending by Singapore tourists in Malaysia would be recorded as _____ item in the _____ of Malaysia.
    A. debit item; current account
    B. debit item; capital account
    C. credit item; capital account
    D. credit item; current account

25. If a Malaysian makes a unilateral transfer abroad, this brings about a _____ and a _____.
    A. statistical discrepancy; merchandise trade deficit
    B. demand for Malaysian ringgit; supply of foreign currency
    C. demand for foreign currency; supply of Malaysian ringgit
    D. none of the above

26. Which of the following exchange rates between the dollar and the pound would a British buyer of American goods most prefer?
    A. $2.00 = £1
    B. $1.50 = £1
    C. $1.26 = £1
    D. $1.00 = £1

Continued...

27. If the exchange rate of yen for dollars increases from 100 yen = $1 to 110 yen = $1, then _____.
    A. the yen has appreciated
    B. the dollar has depreciated
    C. U.S. produced goods would become more expensive
    D. Japanese produced goods would become more expensive

28. In a floating exchange rate system, if the exchange rate of dollar is below the equilibrium level, then _____.
    A. there is excess supply of dollars and the exchange rate should fall
    B. there is excess supply of dollars and the exchange rate should rise
    C. there is excess demand for dollars and the exchange rate should fall
    D. there is excess demand for dollars and the exchange rate should rise

29. An American good with a price tag of $1,000 costs £793.60. The exchange rate must be _____.
    A. $0.79 = £1
    B. $1.26 = £1
    C. $1.20 = £1
    D. None of the above

30. If the economy of the United States grows at a rate of 2% per year and the economy of the European Union grows at 5% per year, we would expect the demand curve for euros to shift to the _____ and the supply curve for euros to shift to the _____.
    A. left; left
    B. right; left
    C. left; right
    D. right; right

Continued...

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

First National Bank
Statement of Financial Position

Assets	RM	Liabilities	RM
Reserves	?	Deposits	100,000
Loans	70,000		

Exhibit 1

Based on *Exhibit 1*, answer the following questions.

a) Assuming that First National Bank has two types of assets i.e. reserves and loans and the only type of liability is deposits. How much is being kept by First National Bank as reserves?

(2 marks)

b) Assuming that the reserves that is kept as obtained in (a) is RM5,000 more than what is required, what is the amount of required reserves?

(2 marks)

c) Calculate the required reserve ratio.

(2 marks)

d) how much new loans can First National Bank make?

(1 mark)

e) Calculate the money multiplier.

(1 mark)

f) Assuming that central bank makes a RM1,000 open market purchase. How will this affect the total money supply in the banking system?

(2 marks)

g) Explain with a diagram how an open market purchase affects the equilibrium interest rate.

(7 marks)

h) Besides open market operation, provide **THREE** other tools that can be used by the central bank to control money supply.

(3 marks)

Part B

Briefly explain the **TWO** different types of inflation. (3 marks)

Part C

Category	No. of individuals
Naturally unemployed	5,500
Cyclically unemployed	6,000
Discouraged workers	500
Employed workers	41,000
Working age population	75,000

Exhibit 2

Continued...

Based on ***Exhibit 2***, answer the following questions.

a) Calculate the size of labour force.

(2 marks)

b) Calculate the unemployment rate.

(1.5 marks)

c) Calculate the labour force participation rate.

(1.5 marks)

d) Supposed that 500 of the workers who are frictionally unemployed gave up on job search, how will this affect the unemployment rate? Show the calculation.

(2 marks)

[TOTAL 30 MARKS]

Question 2

Part A

Exhibit 3 depicts the production possibilities of potatoes and wheat in the U.S. and Ireland.

	U.S.	Ireland
Potatoes (tonnes per day)	150	30
Wheat (tonnes per day)	30	30

Exhibit 3

Based on ***Exhibit 3***, answer the following questions.

a) Which country has an absolute advantage in the production of potatoes?

(1 mark)

b) Which country has an absolute advantage in the production of wheat?

(1 mark)

c) Calculate the opportunity cost of each tonnne of potatoes in the U.S. and Ireland.

(2 marks)

d) Calculate the opportunity cost of each tonne of wheat in the U.S. and Ireland.

(2 marks)

e) Which country has the comparative advantage in the production of potatoes? Why?

(3 marks)

f) Which country has the comparative advantage in the production of wheat? Why?

(3 marks)

g) If both countries specialise in the good for which they have comparative advantage, what is the world total output of potatoes and wheat?

(2 marks)

Continued...

Part B

Exhibit 4 depicts the domestic demand and domestic supply of corn in the U.S.

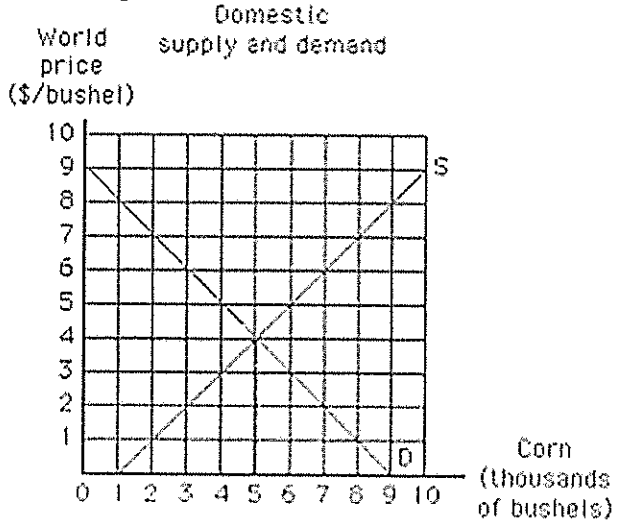

Exhibit 4

Based on *Exhibit 4*, answer the following questions.

a) In the absence of trade, what is the equilibrium price of corn and equilibrium quantity of corn?

(2 marks)

b) If the world price of corn is $2 and there are no trade restrictions, does U.S. import or export corn? What is the quantity imported or exported?

(2 marks)

c) If trade is allowed, who gains and who loses, the consumers or the producers?

(2 marks)

[TOTAL 20 MARKS]

Question 3

Part A

Exhibit 5 depicts the data related to the economy of Pineland.

Item	$ (million)
Merchandise exports	100
Merchandise imports	125
Exports of service	90
Imports of service	80
Income receipts from investment abroad	110
Income payments made for foreign investments	150
Increase in home country's ownership of assets abroad	160
Increase in foreign ownership of assets in home countries	200

Exhibit 5

Assuming that unilateral transfers equal zero. Based on *Exhibit 5,*

a) calculate trade balance.

(1.5 marks)

Continued...

b) calculate service balance.

(1.5 marks)

c) calculate current account balance.

(2.5 marks)

d) calculate capital account balance.

(1.5 marks)

e) assuming that there is no statistical discrepancies, how much is the net change in international reserves?

(2.5 marks)

Part B

Given the following scenario: The average income per U.S. worker decreases while that of Japanese workers remains unchanged.

Explain with a diagram how the above scenario affects the demand or supply of yen and what is the impact on the equilibrium exchange rate of yen. In this case, does the dollar appreciate or depreciate?

(6 marks)

Part C

a) Explain the difference between floating exchange rate sytem and fixed exchange rate system.

(2 marks)

b) Draw a diagram of demand and supply of the U.S. dollars, as a function of the exchange rate expressed in pound per U.S. dollars. Show on the diagram that the U.S.dollar is undervalued in a fixed exchange rate system.

(2.5 marks)

[TOTAL 20 MARKS]

End of Paper